

*AN APPRAISAL OF PARCEL 540,  
± 8 ACRES LOCATED IN PART OF THE SOUTHEAST ¼ OF THE  
SOUTHEAST ¼ OF THE NORTHEAST ¼, SECTION 21,  
TOWNSHIP 2 SOUTH, RANGE 6 EAST,  
GALLATIN COUNTY, MONTANA*

*DATE OF VALUATION  
AUGUST 21, 2008*

*FOR*

*MONTANA DEPARTMENT OF NATURAL RESOURCES AND  
CONSERVATION TRUST LAND MANAGEMENT DIVISION  
1625 ELEVENTH AVENUE, HELENA, MT 59620*

*BY  
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August 28, 2008

Montana DNRC Trust Land Management Division  
c/o Tom Konency, Appraiser  
P.O. Box 201601  
Helena, MT 59620-1601

RE: Parcel 540 -  $\pm$  8 acres of land located in part of the SE  $\frac{1}{4}$  of the SE  $\frac{1}{4}$  of the NE  $\frac{1}{4}$  of Section 21, Township 2 South, Range 6 East, Gallatin County, Montana. The property address is 1299 Fort Ellis Road, Bozeman, MT, 59715

Dear Tom:

In accordance with the contract with the Department of Natural Resources and Conservation, Trust Land Management Division, I have made the necessary inspection and analysis to appraise the above referenced property. The attached report provides the essential data, and detailed reasoning employed in estimating my final value estimate. The report contains 35 pages excluding the addenda

I have appraised the property as a whole, owned in fee simple and unencumbered. I assume no responsibility for matters that are legal in nature nor do I render any opinion as to title.

$\pm$  8 acres of land located in part of the SE  $\frac{1}{4}$  of the SE  $\frac{1}{4}$  of the NE  $\frac{1}{4}$  of Section 21, Township 2 South, Range 6 East, Gallatin County, Montana. The property address is 1299 Fort Ellis Road, Bozeman, MT, 59715

The value reported is qualified by certain definitions, assumptions and limiting conditions, extraordinary assumption and certification, which are set forth within the attached report. The analysis contained herein is considered to be a complete appraisal, and is presented in a summary appraisal report format. This appraisal report is intended to conform to the Uniform Standards of Professional Appraisal Practice, FIRREA and State of Montana, DNRC reporting requirements.

Based on my analysis, the market value of the subject property, as set forth, documented and qualified in the attached report under conditions prevailing on August 21, 2008 was:

***Three Hundred and Sixty Thousand Dollars***  
***\$360,000\****

\* This value is subject to the Hypothetical Conditions on pages 8 & 9

I direct your attention to the data, discussions and conclusions which follow.

Respectfully submitted,

---

Gregory A. Thornquist  
Montana State Certified  
General Real Estate Appraiser #867

## **TABLE OF CONTENTS**

### **INTRODUCTION**

#### **Page**

Subject Property Photograph .....	5
Summary Of Important Facts And Conclusions.....	6
Assumptions And Limiting Conditions .....	7
Scope Of The Appraisal .....	10
Definition Of Market Value .....	11
Purpose Of The Appraisal.....	11
Intended Use Of The Appraisal And Intended Client .....	11
Property Rights Appraised .....	11
Identification Of Property And Legal Description .....	12
Purported Owner .....	12
Sales History Of The Property .....	12
Regional Map .....	13
Regional And City Analysis .....	14
Neighborhood Data And Trends .....	17
Neighborhood Photographs.....	18
Real Estate Taxes .....	19
Property Description.....	21
Subject Property Photographs.....	23
Zoning .....	24
Highest And Best Use .....	25
Highest & Best Use Of Land As Vacant .....	25
Property Valuation .....	27
Definitions .....	27
Site Valuation.....	28
Land Sale Location Map.....	30
Land Sale Adjustment Grid.....	31
Value Estimate And Certification.....	34

### **ADDENDA:**

Contract

Scope of Work

Zoning Classifications

State of Montana – lessee improvements

Comparable Land Sales with Photographs

Qualifications of the Appraiser

State License

**SUBJECT PROPERTY PHOTOGRAPH**



View of the subject looking northwest.  
Photograph taken from Fort Ellis Road at the southeast corner of the site



Aerial view of the subject

## **SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

<i>PURPORTED OWNER:</i>	State of Montana.
<i>PROPERTY TYPE:</i>	Rural residential.
<i>LOCATION OF PROPERTY:</i>	1299 Fort Ellis Road, Bozeman, MT 59715. The property is located southeast of Bozeman, MT along the west side of Fort Ellis Road.
<i>SITE:</i>	± 8 acres.
<i>PROPERTY RIGHTS APPRAISED:</i>	Fee Simple (See Hypothetical Conditions on page 7).
<i>ZONING:</i>	PLI (Public Lands and Institutions District)
<i>PRESENT USE:</i>	Single family dwelling with various agricultural outbuildings.
<i>HIGHEST AND BEST USE:</i>	Single family
<i>DATE OF VALUATION:</i>	August 21, 2008
<i>VALUE:</i>	\$360,000*

\* This value is subject to the Hypothetical Conditions on pages 8 & 9

## **ASSUMPTIONS AND LIMITING CONDITIONS**

This is to certify that the appraiser, in submitting this statement and opinion of value of subject property, acted in accordance with and was bound by the following principles, limiting conditions and assumptions. Unauthorized use of this report is set forth below.

1. No responsibility is assumed for matters that are legal in nature nor is any opinion rendered on title of property appraised.
2. Unless otherwise noted, the property has been appraised as though free and clear of all encumbrances.
3. Where the values of the land and the improvements are shown separately, the value of each is segregated only as an aid to better estimate the value which it lends to the whole parcel, rather than value of that particular item if it were by itself.
4. All maps, areas, plans, specifications, and other data furnished your appraiser were assumed to be correct. No survey of the property was made by this firm. Furthermore, all numerical references to linear measurements, area, volume or angular measurements should be assumed to be "more or less" (+/-) and are accurate to a degree consistent with their use for valuation purposes.
5. This appraisal considers only surface rights to the property with consideration of current zoning and land use controls. The estimate of **highest and best** use will form the basis for the value estimate. This appraisal does not consider mineral, gas, oil or other natural resource rights that may be inherent in the ownership of the property.
6. In this appraisal assignment, any potentially hazardous material found on the land or used in the construction of the buildings, such as urea formaldehyde foam insulation, petroleum residue, asbestos and/or existence of toxic waste or gases, which may or may not be present on the property, has not been considered. The appraiser is not qualified to detect such substances. Any interested party is urged to retain an expert in this field if there is any question regarding such potentially hazardous material. If such material or substance is present it could adversely affect the value reported herein.
7. The appraiser is not a seismologist. This appraisal should not be relied upon as to whether a seismic problem exists, or does not actually exist on the property. The property which is the subject of this appraisal is within a geographic area where earthquakes and other seismic disturbances have previously occurred and where they may occur again. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the appraiser concerning the geologic and/or seismic condition of the property. The appraiser assumes no responsibility for the possible affect on subject property on seismic activity and/or earthquakes. I have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed seismic requirements by the City or County. It is possible that a survey of the property could reveal that the property does not meet the required seismic requirements. If so, this fact could have a negative effect upon the value of the property. Since I have no direct evidence relating to this issue, I did not consider possible noncompliance requirements in estimating the value of the property.

8. All data contained in this report and in the appraiser's files, as obtained from other sources, upon which to any degree the opinions and conclusions were based, are considered reliable and believed to be true and correct. However, the appraiser does not assume responsibility for the accuracy of such items that were obtained from other parties.
9. There shall be no obligation to give testimony or attendance in court by reason of this appraisal with reference to the property in question unless arrangements have been previously made and at an additional fee.
10. Neither all nor any part of the contents of this report, especially the conclusions as to value, the identity of the appraiser or the firm with which he is connected shall be disseminated to the public through advertising media, news media, public relations media, sales media, or any other public means of communication without the prior written consent of the appraiser.
11. Gregory A. Thornquist does not authorize the out-of-context quoting from, or partial reprinting of, this appraisal report.
12. The liability of Gregory A. Thornquist is limited to the client and to the fee collected. Further, there is no accountability, obligations or liability to any third party. If this report is placed in the hands of anyone other than client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser assumes no responsibility for any costs incurred to discover or correct any deficiencies of any type present in the property; physically, financially, or of a legal nature.
13. The fee for this appraisal report is for the service rendered and not for time spent on the physical report or for the physical report itself.
14. This appraisal report is prepared for the sole and exclusive use of the client, State of Montana, Montana DNRC Trust Land Management Division. No third parties are authorized to rely upon this report without the expressed written consent of the appraiser.
15. This Summary Appraisal Report is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analysis that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning and analysis is contained in the appraiser's file.

### **EXTRAORDINARY ASSUMPTION AND LIMITING CONDITION**

1. As noted in the "Supplemental Appraisal Instructions" my appraisal assignment is to appraise the subject as follows:
  - As though vacant (exclusive of existing improvements, i.e. buildings and landscaping).
  - This site has an approved driveway access, rural electrical service and phone service.
2. This appraisal assumes the subject parcel will consist of approximately 8 acres. This 8 acre parcel will be surveyed and split off of what is currently a larger parcel. In addition, this appraisal assumes the plat approval process will be approved by Gallatin County.



3. Although the subject property is leased, this appraisal assumes that the current lease does not exist. This is part of the scope of the assignment and is noted in the “Supplemental Appraisal Instructions”.

## **SCOPE OF THE APPRAISAL**

I initially spoke with Tom Konency, appraiser with the Montana DNRC Trust Land Management Division and I was retained to appraise the subject property. Mr. Konency provided me with the following information:

- Scope of work.
- Parcel description.
- Contact information for inspecting the subject property.

On August 21, 2008 I met with Craig Campbell, DNRC Unit Manager and he accompanied me to the subject site. Mr. Campbell noted the site will be surveyed and split off into an approximately 8 acre parcel.

The subject property is leased to Joe Esparza and Ris Higgins (lessees), who also reside and own the improvements. The lessees met us on-site and it was conveyed to them this appraisal assignment is a land valuation only. The value indication reported in the following analysis is based upon a site of 8 acres.

The property is currently improved with single family dwellings, numerous agricultural outbuildings, paving, gravel, landscaping, fencing, etc. These improvements to the site are not a part of this assignment which is noted in the scope of assignment included in the addenda.

General information pertaining to the subject property was also obtained from the Gallatin County Courthouse.

The neighborhood and surrounding competitive market areas were researched to find comparable market data. Real Estate agents, property owners, and real estate appraisers in Bozeman were interviewed in an attempt to find relevant market data. This market data has been confirmed by personal contact with the buyer, seller, broker, and/or property owner.

All of the comparable's described in the body of the report are shown in detail on the summary sheets included in the addenda.

### ***Effective Date:***

The effective date of this appraisal report is August 21, 2008. This is the date of valuation and was the actual date of the property inspection. This appraisal report was completed August 29, 2008.

## **DEFINITION OF MARKET VALUE**

Market value, as used in this report was provided by the client, and is defined as follows:

**Current fair market value. (MCA 70-30-313)** Current fair market value is the price that would be agreed to by a willing and informed seller and buyer, taking into consideration, but not limited to, the following factors:

- (1) the highest and best reasonably available use and its value for such use, provided current use may not be presumed to be the highest and best use;
- (2) the machinery, equipment, and fixtures forming part of the real estate taken; and any other relevant factors as to which evidence is offered.

## **PURPOSE OF THE APPRAISAL**

The purpose of the appraisal is to provide the clients with a credible opinion of current fair market value of the appraised subject property.

## **INTENDED USE OF THE APPRAISAL AND INTENDED CLIENT**

The intended use is for the decision making process concerning the potential sale of the subject property. The clients and intended users are the State of Montana, the Montana Board of Land Commissioners and the Department of Natural Resources and Conservation (DNRC).

## **PROPERTY RIGHTS APPRAISED**

This appraisal is made with the understanding and assumption that present ownership of the subject property includes all rights that may be lawfully owned, and is therefore, title in fee simple as of August 21, 2008. A fee simple estate is subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power and escheat.

State of Montana lands are always to be appraised as if they are in private ownership and could be sold on the open market and are to be appraised in **Fee Simple interest**. For analysis purposes, properties that have leases or licenses on them are to be appraised with the Hypothetical Condition the leases/licenses do not exist.

## **IDENTIFICATION OF PROPERTY AND LEGAL DESCRIPTION**

The property which is the subject matter of this report consists of  $\pm 8$  acres of a larger parcel of land owned by the State of Montana. This  $\pm 8$  acre site is located southeast of the City of Bozeman along the west side of Fort Ellis Road. A more accurate/complete legal description of the subject will be established once the property is surveyed. The legal description for the subject site as provided to me is as follows:

**Parcel 540:** Part of the SE  $\frac{1}{4}$  SE  $\frac{1}{4}$  NE  $\frac{1}{4}$ , Sec. 21, T2S-R6E, Gallatin County, Montana (Sale 540 is to be surveyed out and subdivided into a parcel approximately 8-acres in size.).

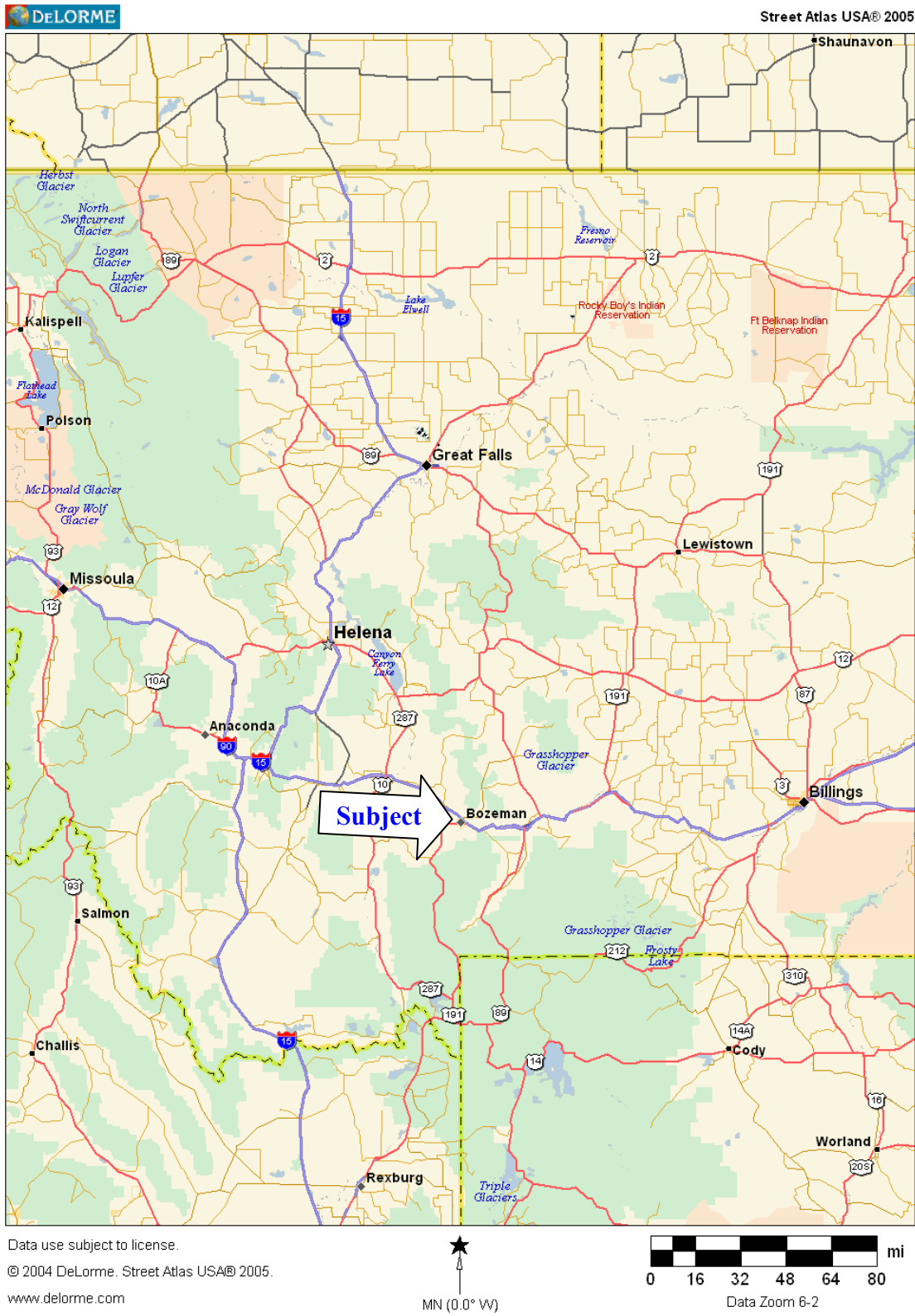
## **PURPORTED OWNER**

The subject parcel is owned by the State of Montana.

## **SALES HISTORY OF THE PROPERTY**

The subject parcel has been owned by the State of Montana for a number of years. The 8 acre site that is the subject of this appraisal will be made available for public sale and as of the date of this report no sale has occurred.

## REGIONAL MAP



## **REGIONAL AND CITY ANALYSIS**

Gallatin County is the most populated and fastest growing county in southwest Montana. Bozeman is the fourth largest city in Montana, nestled in the Rocky Mountains. It is close to world-class downhill skiing, blue ribbon trout streams, Yellowstone National Park and other outdoor activities in the pristine nearby wilderness areas. Gallatin County covers over 2,500 square miles of mountain lands varying in topography and climate from temperate river valleys to snow-capped peaks and open ranch lands. Nearly half of all the land in Gallatin County is under public ownership by the Gallatin National Forest, State of Montana, Bureau of Land Management or the National Park Service. Gallatin County is large and diverse, featuring everything from the spectacular scenery of Yellowstone National Park to lush farmland, and a growing economy of high-tech industries. Gallatin County offers opportunities to outdoor enthusiasts, wildlife watchers, business owners, vacationers, ranchers, retirees, students and many others.

### ***Forces Influencing Property Values***

The value of real estate is influenced by the interaction of four major forces: Social considerations, economic considerations, government and environmental considerations. The four forces are discussed as follows:

#### ***Social Considerations***

Social forces are exerted largely by population characteristics, including population growth, density, and age distribution. The 2000 census and July 2007 population estimates for Bozeman and Gallatin County are as follows:

	<u>2000 Census</u>	<u>July 2007 estimates</u>	<u>% Increase</u>
City of Bozeman	27,509	37,981	38%
Gallatin County	67,831	87,359	29%

Bozeman and its surrounding communities, like much of Montana, have seen a large influx of people from the neighboring northwest states. Overcrowding in larger cities has influenced moving to areas that offer smaller and often safer communities. Like much of Montana, Bozeman and the surrounding communities offer a very attractive physical environment. For Gallatin County the median household income for 2005 was \$45,312.

Vast public lands are also available within the region providing numerous opportunities for big game hunters, outfitters, hikers, backpackers, alpine skiers, and the use of snow machines. There are a number of ski hills that range from small, locally owned and operated, to Big Sky Resort near Bozeman which is one of the largest ski hills in this region.

The City of Bozeman has numerous city parks, golf courses, and a number of facilities offering cultural events.

### ***Economic Considerations***

Bozeman, like the rest of Montana has been experiencing growth of its economy for the past several years. In the long run, the outlook for Bozeman and the vicinity is quite positive based on a number of factors:

- X County seat for Gallatin County.
- X Central location
- X Influx of population
- X Wide range of skills in the labor force
- X Montana State University
- X Tourism

Bozeman has a diversified skilled labor force and community expansion continually creates new employment. Unemployment rates have averaged approximately .% below the State of Montana rate, and almost 1% below the national average rate. As of July 2008 the unemployment rate for the United States was 5.7% and Montana's unemployment rate was at 4.0%. With the current strong economic conditions, construction employment has increased with the surge of new development in Bozeman and surrounding communities. Bozeman has experienced several years of residential and commercial growth. As home prices increased in Bozeman residential development increased in the surrounding communities of Belgrade, Manhattan, Three Forks, etc. Commercial construction has been prevalent throughout the city limits where land is available. Any commercial or residential development next to the existing city limits will cause extension of city services and annexation. Large discount stores, banking facilities, office buildings, numerous strip centers and multi family developments have been constructed recently. Property values have appreciated and sales activity has remained strong. Bozeman's economy and Montana's economy in general, is considered to be stable and is currently experiencing mild to moderate growth.

### ***Governmental Considerations***

The City of Bozeman enjoys good quality police and fire protection. The city government has a mayor, four city commissioners, and a city manager. Adequate schools are available at all levels of education. There are eleven elementary and middle schools. Bozeman has one public high school and there are a variety of private schools. Montana State University is located in Bozeman which had an

enrollment in 2007 of 12,170.

Bozeman zoning ordinances and building codes are consistent with guidelines required for responsible construction quality and orderly growth in defined areas.

Property taxes are administered by the city, county, and school districts. There is no sales tax in Montana.

### ***Environmental Considerations***

Environmental and physical forces, both natural and man made can influence property values. These forces include climatic conditions, topography and natural barriers, and transportation systems.

The climate near Bozeman can best be described as modified continental. Continental climate means the summers are dry and hot, and the winters are cold. The average summer temperatures in Bozeman are 70s and 80s with lows in the mid 40s to low 50s. The winter months average temperatures in the 30s and 40s and the annual mean snowfall is 73.1 inches. A milder climate helps reduce operating costs for business, and furthermore it helps to extend the effective life for many buildings.

Bozeman is located along Interstate 90 and several commercial and charter airlines provide air service to the Bozeman. There are commercial and charter bus services, motor carriers, and two railroads.

Parts of Montana are subject to seismic activity which has been minimal and apparently not affected property values.

### ***Conclusion***

The large secondary educational presence and tourism coupled with significant residential and commercial growth has allowed Bozeman and the surrounding communities to experience stable or better economic conditions in years past. Future economic conditions should remain stable or better as population and income levels rise, and tourism becomes ever more popular. Property values should steadily appreciate as they have in the past.



## **NEIGHBORHOOD DATA AND TRENDS**

The subject is located southeast of Bozeman along Fort Ellis Road approximately one mile south of Interstate 90. The subject is located outside the Bozeman city limits but within what is described as the Gallatin County/Bozeman Area “Donut”. The neighborhood is predominately single family residences, agricultural property and vacant land.

This neighborhood has experienced moderate growth in recent years. As the Bozeman city limits expand it is anticipated future development will occur mainly in the form of single family developments.

The subject is located within the outside the Bozeman city limits and therefore the property is served with a private well and septic system. Electricity is available and propane is utilized.

In conclusion, this neighborhood should continue to experience positive market conditions.

## *NEIGHBORHOOD PHOTOGRAPHS*



Looking north along Fort Ellis Road.  
Subject property is to the left.



Arial view of the subject neighborhood.

## **REAL ESTATE TAXES**

The subject property is owned by the State of Montana and is currently exempt from taxation. If the parcel sells and is in private ownership it will be subject to taxation. The improvements are owned by the lessee and are being taxed by the various taxing authorities.

The Montana State Department of Revenue, working through each county courthouse, appraises all taxable real estate, presumably at market value. State law has prescribed that a re-evaluation plan be completed periodically. The most recent statewide reappraisal was completed on December 31, 2002, which is for tax years 2003 thru 2008. Single family dwellings are predominately valued based upon the sales comparison approach. When market data proves to be unreliable, Montana Department of Revenue appraisers will use replacement cost, less depreciation. For commercial property, the appraiser's have relied most heavily on the cost approach, but in areas where sufficient income and expense data is available, the income approach is being considered more and more. Industrial property is valued based upon the cost approach. The Marshall Valuation Service Cost Manual is heavily used by the Montana Department of Revenue appraisers. Other non-public data, resulting from the Real Estate Financial Disclosure Act, is also considered.

Due to the fact that the Department of Revenues values are based upon pre 2003 market data, the current market values may or may not be indicative of the value for tax purposes depending on the changing market conditions. The Montana Legislature has recognized that real estate values have been increasing significantly, therefore, it enacted into law a phase-in process along with a value exemption for residential and commercial property. The phase-in process for the current reappraisal cycle is 16.66% per year for both classes of property. The exemption for residential property is 31% for tax year 2003 and increases incrementally to 34% for tax year 2008 and succeeding years. The exemption for commercial property is 13% for tax year 2003 and increases incrementally to 15% for tax year 2008 and succeeding years. The market value depicted on the tax statements is the value after the phase-in and exemption adjustment. This value is also referred to as the "Taxable Market Value". The tax rate is then applied to the taxable market value to establish the taxable value. The tax rate for 2003 is 3.40% and is adjusted downward annually, until it reaches 3.01% in 2008. Each of these adjustments to the Department of Revenues market value determination is an attempt to keep real estate taxes relatively equal to previous tax years. The final step in determining the general property tax is by multiplying the taxable value by the jurisdictional mill levy. The following table illustrates **examples** of how the taxes are determined for a residential and a commercial property:

Residential			Commercial		
2003 full reappraisal value		\$150,000	2003 full reappraisal value		\$1,500,000
2002 value before reappraisal	-	\$100,000	2002 value before reappraisal	-	\$1,000,000
Increase from reappraisal		\$50,000	Increase from reappraisal		\$500,000
16.66 phase-in on increase	x	16.66%	16.66 phase-in on increase	x	16.66%
Phase-in amount		\$8,330	Phase-in amount		\$83,300
2002 value before reappraisal	+	\$100,000	2002 value before reappraisal		\$1,000,000
2003 phase-in value		\$108,330	2003 phase-in value		\$1,083,300
Exemption (31%)	x	69%	Exemption (13%)	x	87%
2003 taxable value		\$74,747			\$942,471
Tax rate	x	3.40%	Tax rate	x	3.40%
Taxable value		\$2,541	Taxable value		\$32,044
Mill levy (.450)	x	.450	Mill levy (.450)	x	.450
<b>General Property Taxes</b>		<b>\$1,144</b>	<b>General Property Taxes</b>		<b>\$14,420</b>
This example is for illustrative purposes only. Mill levies vary by school district and taxing jurisdiction.					

The tax bill sets forth the taxable market values and taxable values for the land and improvements. As noted above the mill levy is applied against taxable value to obtain the dollar amount of general taxes. General taxes and perpetual improvement district charges are listed for the first and second halves of the year. Real estate taxes are paid in arrears, with the first half due in November of the current year and the second half due in May of the following year. As previously noted the subject site is currently exempt from taxation.

## **PROPERTY DESCRIPTION**

### ***Site***

#### ***Size:***

The subject parcel consists of  $\pm$  8 acres.

#### ***Shape:***

The subject parcel is rectangular in shape.

#### ***Topography:***

The parcel slopes to the southeast. In addition, there is a small ravine in the SE portion of the parcel. These ravines are typical in this area.

#### ***Soil Conditions:***

Soil conditions are unknown. No soil tests were provided to your appraiser.

#### ***Easements:***

No title policy was provided to your appraiser. A title policy should be used for the final determination of easements and encroachments.

#### ***Access:***

Access to the subject site is from Fort Ellis Road, a gravel road, along the east boundary of the property.

#### ***Utilities:***

The subject is located outside the Bozeman city limits and properties in this vicinity are served by private wells and septic systems. Natural gas is located approximately 1/8 mile north of the subject. The subject is served by propane and electrical service is provided by Park Electric Cooperative. In addition, phone service is available throughout the area.

#### ***Functional Adequacy:***

The subject parcel is located SE of Bozeman and is bordered by State owned agricultural land on the north, south, and west. To the east is also agricultural land. Subdivision development has and is occurring in the immediate vicinity. In addition, there are a number of agricultural properties in the area.

*Flood Plain:*

The subject property is located in an area that has not been mapped for flood hazards and is NOT within the regulatory floodplain as shown in the Flood Insurance Study, City of Bozeman, Montana, Gallatin County, and Federal Emergency Management Agency: July 15, 1988. Community Panel Number 300028-0017C is not printed. The subject property is considered upland land and not considered to be a flood prone area.

*Nuisances or Hazards:*

The property is located SE of Bozeman in an area that has been transitioning from agricultural land to single family subdivisions. None of the surrounding uses appear to have an adverse impact on the subject property.

*Site Improvements:*

There are a variety of site improvements, i.e., paving, landscaping, etc. but are not considered in this appraisal assignment.

***Building Description***

*Type and Size:*

There are two single family dwellings and numerous agricultural outbuildings on the parcel which are not considered in this appraisal assignment.

**SUBJECT PROPERTY PHOTOGRAPHS**



Looking NW across subject parcel.



View of what will be the south boundary of the subject.

## **ZONING**

The subject property is zoned PLI (Public Lands and Institutions District). The intent for this district is to provide for major public and quasi-public uses outside of other districts. The subject property is currently developed with single family dwelling and agricultural outbuildings. This use is a legal non-conforming use.

The Gallatin County Planning Office indicated once a survey has been completed and a legal description has been established for the subject property, and submitted for subdivision review, the most applicable zoning to be applied to the subject will be either R-S (Residential-Suburban County Estates District) or A-S Agricultural Suburban District. Each of these zoning districts provide for single family dwelling as a principle use.

Copies of PLI, R-S, and A-S zoning districts are included in the addenda.



## **HIGHEST AND BEST USE**

"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible and that results in the highest value."<sup>1</sup>

The definition above applies to the highest and best use of vacant land or improved property. It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

Quite often in estimating the highest and best use of land, the appraiser is controlled by governmental regulations. These controls are generally zoning ordinance, parking requirements and building codes. Also, in the estimate of highest and best use, one must recognize the attitude of typical investors in the marketplace.

Real estate will usually fall into certain definite development patterns, and their uses can be classified as: residential, agricultural, recreational, industrial, commercial and public use. In valuing the highest and best use of the land both as if vacant and improved, the following criteria must be met. 1) legally permissible, 2) physically possible, 3) financially feasible, and 4) maximally productive.

### **Highest & Best Use of Land as Vacant**

#### ***Legally Permissible***

An investigation at the Gallatin County Planning Office revealed the subject property is zoned PLI (Public Land Institutions). The intent of the PLI public land and institutions is to provide for major public and quasi-public uses outside of other districts. Not all public and quasi-public uses need to be classified PLI. Some may fit within another district; however, larger areas will be designated PLI

I met with Tom Rogers, County Planner, and indicated to him the State of Montana intends to sell ±8 acres once the property has been surveyed. Mr. Rogers indicated the subject is located in what is identified as the Gallatin County/Bozeman Area "Donut". He also noted the subject would have to go through the subdivision process and a legal description would need to be designated. In addition, Mr. Rogers didn't anticipate the zoning process with the county would be a difficult process and the most

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<sup>1</sup> *The Appraisal of Real Estate, 12<sup>th</sup> Edition*, (Appraisal Institute, 2001), p. 305.

conducive zoning classification to be assigned to the subject would be R-S (Residential Suburban Country Estates District) or A-S (Agricultural Suburban District). Each of these zoning districts provides for single family use and the A-S district is sensitive to areas of agricultural uses.

Based upon the surrounding uses and discussions with the county planning office, single family is a legal permitted use within the R-S and A-S zoning districts.

### ***Physically Possible***

This neighborhood is improved with a mix of residential and agricultural uses. The sites best attribute is its location as a rural setting and views of the surrounding valley and mountains. The subject site has a mild to sloping topography and soil conditions in the area have been proven adequate for development. Based upon the physical characteristics of the subject site and existing properties within the neighborhood, the legally permissible uses permitted by either the R-S or A-S zoning ordinances would be physically possible.

### ***Financially Feasible***

Bozeman in general has been experienced rapid growth over the past few years. The subject neighborhood has undergone increased single family subdivision development but this development has tapered off somewhat in the past 12 to 18 months. Southwest of the City of Bozeman has experienced the greatest amount of development, both commercial and residential. Approximately two to three years ago the Bozeman area was experiencing a significant amount of residential subdivision development and within the past 12 to 18 months this demand declined leaving a significant inventory available. Discussions with local real estate agents and appraisers indicated land prices are not declining but rather have remained somewhat stable. Until the available inventory is somewhat absorbed, it is anticipated prices will remain level.

Taking into account the subject sites rural setting southeast of the City of Bozeman the financially feasible use of the subject site is for single family residence that is legally permissible and physically possible.

### ***Maximally Productive***

The use that conforms to the requirements of the first three tests, and would provide the maximum productivity of the subject site, is for single family development.

## **PROPERTY VALUATION**

### ***Methods and/or Techniques Employed:***

Whenever possible, all three basic approaches to value are utilized. The resulting indications of value are then correlated into a final estimate of market value. In the course of investigating the marketplace where this valuation will be made, sufficient data was found to employ the sales comparison approach.

## **DEFINITIONS**

### **Sales Comparison Approach:**

A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison and making adjustments to the sales price of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant.<sup>2</sup>

The reliability of this technique is depended upon (A) the availability of comparable sales data, (B) the verification of sales data, (C) the degree of comparability or extent of adjustment necessary for time differences, and (D) the absence of non typical conditions affecting the sales price.

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<sup>2</sup>The Appraisal of Real Estate, 12th Edition, Page 417, 2001, sponsored by the Appraisal Institute.

## **SITE VALUATION**

The method employed to value the site as if vacant and available for sale is the Sales Comparison Approach. An investigation of the market revealed three sales and two listings which are indicative of what a well informed buyer or seller would consider in forming an opinion of value. Descriptive data of these sales are contained in the Addenda.

### ***Adjustments***

All of the comparable properties differ somewhat from each other, and from the subject in various ways. The usual differences are for cash equivalency, market conditions, location, and a number of physical characteristics. Many of these factors, in varying degrees, are applicable in the appraisal of the subject property. When dissimilarities are found in comparable properties, they are adjusted for by adding to the comparable price when the dissimilar factor is inferior to the same factor found in the subject property. Likewise, a minus adjustment should be made when the comparable sale has a factor which is superior to that found in the subject property. The sale properties, then, are adjusted to the subject property.

However, in the market it is often difficult and sometimes impossible to accurately isolate a given factor. In short, one very seldom finds sales which are identical in all respects but one, and thus is able to prove conclusively the value, or lack of it, for any one factor due to a difference in sale price. Often, there are plus and minus factors which offset each other. Thus, the use of subjective judgment, to some degree, may be exercised.

Nevertheless, the differences in values are real and adjustments based on as much fact as can be found, will be made. Then, the appraiser may call upon his experience to make subjective judgments.

### ***Property Rights***

Each of the sales involves fee simple property rights. As a result, no property rights adjustments are warranted.

### ***Financing:***

All sales are cash to the seller or on terms considered cash equivalent, and no adjustments are required.

### ***Conditions of Sale:***

No non-market conditions motivating the buyer or seller involved in the transactions are known

or reported, therefore no adjustments are required.

***Expenditures Immediately After Sale:***

None of the sales required expenditures immediately after sale, and therefore no adjustments are required.

***Contributory Improvements:***

Sale No. 2 had an older personal property mobile home and garage structure which reportedly had no contributory value.

***Market Conditions:***

An adjustment for market conditions is required to bring all comparable sales up to the effective date of the appraisal report, August 21, 2008.

I spoke with Todd Olsen, a local real estate appraiser, and he indicated there has been little or no appreciation in residential land in the past 12 to 18 months as a result of the standing inventory. This was also discussed and confirmed with various Bozeman area real estate agents. Therefore, I have not applied an appreciation factor to the land sales used within this analysis.

***Remaining Adjustments:***

The remaining adjustments will be explained in a qualitative analysis which is an effective technique that recognizes the inefficiencies of a real estate market and the difficulty in expressing the adjustments with mathematical precision. The adjustments included in the qualitative analysis are location, size, plat approval process, zoning, and amenities. The land sales adjustment grid can be seen on the following page.

***LAND SALE LOCATION MAP***

**LAND SALE ADJUSTMENT GRID**

	Subject	Sale 1	Sale 2	Sale 3	Listing 4	Listing 5
<b>Sale Price</b>		\$475,000	\$350,000	\$365,000	\$499,000 to \$599,000	\$285,000
<b>Size (SF)</b>	± 8 acres	7.2612 acres	5.97 acres	4.5 acres	5.2 acres to 11.21 acres	5 acres
<b>Price Per Acre</b>		\$65,416/AC	\$58,628/AC	\$81,111/AC	\$53,434/AC to \$91,528/AC	\$57,000/AC
<b>Location</b>	Fort Ellis Road Southeast Bozeman.	E. Kagy Southeast Bozeman	Cottonwood Road Southwest Bozeman	1440 Cobb Hill Road Southwest Bozeman	Blackwood Road Southwest Bozeman	Saddle Mountain Road North of Bozeman
<b>Comparison</b>		Similar	Inferior	Slightly Inferior	Inferior	Inferior
<b>Size</b>	±8 acres	7.2612 acres	5.97 acres	4.5 acres	5.2 acres to 11.21 acres	5 acres
<b>Comparison</b>		Similar	Slightly Superior	Superior	Similar	Superior
<b>Plat Approval Process</b>	None	Preliminary Plat Approval	None	Preliminary Plat Approval	None	None
<b>Comparison</b>		Superior	Similar	Similar	Similar	Similar
<b>Zoning</b>	Public Land Institution	Residential Suburban	None	Residential Suburban	Residential Suburban	Residential Suburban
<b>Comparison</b>		Superior	Similar	Superior	Superior	Superior
<b>Amenities</b>	Average	Average	Creek	None	None	None
<b>Comparison</b>		Similar	Superior	Similar	Similar	Similar
<b>Overall Comparability</b>		<b>Superior</b>	<b>Similar</b>	<b>Similar</b>	<b>Superior</b>	<b>Inferior</b>

### ***Sales Analysis:***

The subject site is  $\pm$  8 acres of land located approximately 3 miles southeast of the heart of the City of Bozeman. The parcel is located west of Fort Ellis Road which is a gravel county road. The topography of the subject parcel is sloping to the west and offers elevated views.

Sale No. 1 occurred on September 26, 2007 for 7.2612 acres at \$475,000. This property is located approximately  $\frac{1}{2}$  mile northwest of the subject property at the intersection of E. Kagy Boulevard and Arnica Drive. It was reported by the selling agent the parcel has preliminary plat approval for a minor subdivision for five single family lots. It was also reported the buyer has no intentions at the present to move forward with the subdivision based upon the standing inventory in the Bozeman area. This property is considered similar to the subject with respect to size, location, and amenities, but superior with respect to plat approval for subdivision development and zoning. Overall, this sale is considered superior to the subject as a result of the potential for subdivision development.

Sale No. 2 occurred on July 25, 2008 for 5.97 acres at \$350,000. This property is located approximately 9 miles southwest of the subject along the north side of Cottonwood Drive. This property is located approximately 8 miles southwest of the heart of the City of Bozeman. This sale is considered superior to the subject with respect to size and amenities (creek frontage), similar with respect to future subdivision development and zoning, but inferior with respect to location. Overall, the inferior location causes this sale to be slightly inferior to the subject.

Sale No. 3 occurred on February 27, 2008 for 4.5 acres, at \$365,000. This property is located approximately 9 miles west of the subject property along the north side of Cobb Hill Road. This property is located approximately  $6\frac{1}{2}$  miles southwest of the heart of the City of Bozeman but in close proximity to Huffine Lane which is experiencing a significant amount of commercial development. It was reported by the selling agent this property has preliminary plat approval for a minor subdivision consisting of four lots. This sale is considered superior to the subject with respect to size, plat approval for subdivision development and zoning, similar with respect to shape and amenities, but inferior with respect to location. This sales inferior location is considered to offset the preliminary plat approval, therefore, this sale is considered similar to the subject.

Listing No. 4 are five lots that range in size from 5.2 acres to 11.21. The prices for these lots range from \$399,000 to \$659,000. These lots are located approximately 6 miles west of the subject and  $3\frac{1}{2}$  miles southwest of the heart of the City of Bozeman. These lots are located within the Longview Estates Subdivision which is anticipated to have final plat approval in August/September, 2008. The listing agent indicated there has been some interest mainly from a local builder. These lots are considered superior with respect to zoning, similar with respect size, and amenities, but inferior with respect to location. None of these lots have sold therefore these prices would set the upper end of the range.

Listing No. 5 is a 5 acre lot priced at \$285,000. This property is within a five-lot minor subdivision



and this is the only lot currently listed for sale. This property is located approximately 8 miles north of the subject and 7 miles north of the heart of the City of Bozeman. This listing is considered superior to the subject with respect to size and zoning, similar with respect to plat approval process and amenities, but inferior with respect to location. Although this is a listing, it is considered inferior as a result of location.

There are two considerations for analyzing the subject property. One is an indication of value based upon a price per acre and the second is what a potential buyer would be willing to pay for a building site. Discussions with local real estate agents and real estate appraisers in Bozeman indicated property in the range of 5 to 10 acres are typically sold based upon price of a building site. Considering these discussions and the sales in the aforementioned analysis I have reconciled the market value of the subject property as of August 21, 2008 to be **\$360,000\***.

\* This value is subject to the Hypothetical Conditions on pages 8 & 9

## **VALUE ESTIMATE AND CERTIFICATION**

The undersigned does hereby certify that, to the best of his knowledge and belief, except as otherwise noted in this appraisal report:

1. The statements of fact contained in this report are true and correct.
2. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and/or those found in the letter of engagement or appraisal consultation contract authorizing this report and is my personal, impartial, and unbiased professional analysis, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting a predetermined.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. This appraisal assignment was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
7. My analysis, opinions and conclusions were developed, and this report has been prepared, in conformity with The Uniform Standards of Professional Appraisal Practice and with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.
9. I have made a personal inspection of the property that is the subject of this report.
10. Gregory A. Thornquist is currently licensed in the State of Montana (Certificate #867) as a Certified General Real Estate Appraiser. Regarding the Competency Provision of USPAP, I further attest I've had substantial approved education and experience in the appraisal of vacant land and commercial property.

Based upon all the elements of which I am aware of and which could reasonably affect value, I have estimated market value of the subject site, as of August 21, 2008, to be:

***Three Hundred Sixty Thousand Dollars***

***\$360,000\****

August 28, 2008

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Date

Gregory A. Thornquist,  
General Certified Appraiser

\* This value is subject to the Hypothetical Conditions on pages 8 & 9